Saskatchewan
Municipal Employees'
Pension Commission

Annual Report 1999

Municipal Employees' Pension Commission

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Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the fifty-eighth Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 1999.

I have the honour to be, Madam,

Your obedient servant,

Eric Cline
Minister in Charge
Municipal Employees' Pension Commission

Saskatchewan
Public Employees
Benefits Agency

The Honourable Eric Cline
Minister in Charge
Municipal Employees' Pension Commission
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Municipal Employees' Pension Commission, I have the honour to present herewith the fifty-eighth Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 1999.

Respectively submitted,

Brian Smith
Chairman

INTRODUCTION

Section 7(1.1) of *The Municipal Employees' Pension Act* provides authority to the Municipal Employees' Pension Commission to administer the Municipal Employees' Pension Plan.

The Municipal Employees' Pension Commission consists of a Chairman appointed by the Lieutenant Governor in Council to represent the Government of Saskatchewan, and eight members representing their respective associations as listed below.

NAME	POSITION	REPRESENTING
Brian L. Smith	Chairman	The Government of Saskatchewan
Ronald Walter	Vice-Chairman	Saskatchewan Association of School Business Officials
Barry Hayden	Member	Designated Police Officers and Firefighters
Audrey Trombley	Member	The Rural Municipal Administrators' Association of Saskatchewan
Keith Schneider	Member	The Saskatchewan Urban Municipalities Association
Brian Sych	Member	The Urban Municipal Administrators' Association of Saskatchewan
Dwight Welisch	Member	The Saskatchewan School Trustees' Association
Aaron Deschene	Member	The Saskatchewan Association of Rural Municipalities
Ralph Beattie	Member	Saskatchewan Regional Colleges Trustees' Association

The Commission members are ultimately responsible for the Plan's administration, communication and investment activities. The major duties of the Commission include setting investment and accounting policies, and allocating interest to the Plan. To discharge other responsibilities, the Commission uses the services of a number of organizations.

OPERATIONS OF THE PLAN

OVERVIEW

The Municipal Employees' Pension Plan consists of the "New Plan" and the "Former Plan."

The "New Plan" is a defined benefit pension plan. It provides a monthly allowance at retirement based on three highest years' average salary and on the amount of contributory service credited under the "New Plan".

The "Former Plan" is a defined contribution plan that provides an annuity benefit at retirement. The "Former Plan" was closed to new members on July 1, 1973. Members of the "Former Plan" became members of the "New Plan" at that time.

Retiring long service members may be eligible for a pension benefit under each of the plans.

INCOME ALLOCATION

For the year 1999, the Commission allocated investment income to members' accounts at the rate of 11.1% per annum for the "New Plan" and the "Former Plan."

INVESTMENT OF FUNDS

As trustees of the Municipal Employees' Pension Fund, the Commission is responsible for safeguarding and investing the monies of the Plan.

Responsibility for investing the assets of the Plan has been delegated to professional investment managers. Each manager invests within a specific mandate. As at December 31, 1999 the investment managers invested the following portions of the portfolio:

Investment Manager	Mandate	Percentage of Fund
Greystone Capital Management Inc.	Balanced Fund	71.6%
Foyston, Gordon & Payne	Canadian Equities	8.3%
Brandes Institutional Equity Trust	Non-North American Equities	6.0%
Barclays Global Investors	Foreign Equities Indexed Fund	4.7%
Lincluden Management Limited	Canadian bonds	9.4%
Total		100%

The Commission has appointed Royal Trust as the Plan's custodian. The custodian is responsible for safekeeping of assets, income collection, settlement of investment transactions, and accounting for investment transactions.

James P. Marshall, Inc. has been retained as the Plan's investment consultant. The investment consultant monitors the activities of the investment managers and reports the results to the Commission.

INVESTMENT POLICY

While the responsibility for individual investment decisions is delegated to professional investment managers, the Commission has established an investment policy.

The purpose of the policy is to provide a framework for the management of the Plan's funds within acceptable risk levels. The policy provides the investment managers with specific standards for the quantity and quality of investments, as well as rate of return objectives.

The Commission reviews the investment policy on an annual basis.

INVESTMENT OBJECTIVES

The investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Commission. It is these long-term investment performance objectives that the Commission uses to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio constructed as follows:

Asset Class	Market Index*	Weight
Canadian Equities	TSE 300	32%
US Equities	S&P 500	11%
Non-North American Equities	EAFE	11%
Real Estate	Russell Canadian Property Index	3%
Bonds	SCM Universe	41%
Short Term Investments	91 Day T-Bills	2%
Total		100%

** Descriptions of these indices appear in Appendix 'A'.*

A second objective is to earn asset class rates of return of at least:

- 110% of the TSE 300 on Canadian equities;
- 110% of the S&P 500 on actively managed US equities (in US funds);
- 100% of the S&P 500 on passively managed US equities;
- 100% of the EAFE on non-North American equities;
- 100% of the MSCI Emerging Markets Free Index on emerging market equities;
- 105% of the SCM Universe Bond Index™ on real estate; and
- 105% of the income component of the SCM Mortgage Index on mortgages.

The Commission reviews the investment performance of the Fund in terms of the performance of the benchmark portfolio over rolling four-year periods. The performance of investment managers is also reviewed based on the objectives set for their individual mandates. The following table summarizes the Fund's investment performance as at December 31, 1999:

	1 Year		4 Years	
	Actual	Objective	Actual	Objective
Total Fund	12.7%	13.5%	14.9%	13.7%
Greystone	12.5%	12.4%	15.0%	13.7%
Foyston	6.2%	34.9%	15.2%	19.4%
Brandes*	47.1%	20.0%	NA	NA
Lincluden	1.7%	-1.0%	7.2%	7.4%

Note:

- 4-year rates of return are not applicable to Brandes, whose mandate began in November of 1998.
- 1- year and 4-year rates of return are not applicable to Barclays, whose mandate began on February 2, 1999.

ADMINISTRATION OF THE PLAN

The Public Employees Benefits Agency (PEBA) provides the day-to-day administration of the pension plan. An administrative contract between PEBA and the Municipal Employees' Pension Commission was signed on June 4, 1999.

The annual operating expenditures associated with the Plan's administration are paid by the Public Employees Benefits Agency Revolving Fund, and are charged to the Municipal Employees' Pension Plan.

PEBA is responsible for accounting for all investment transactions, collecting the members' and employers' contributions, and the calculation and issuance of monthly pension benefits to pensioners. PEBA is responsible for ensuring that all transactions are done in accordance with *The Municipal Employees' Pension Act.*

PEBA issued 2,839 monthly pension payments to pensioners at December 31, 1999. PEBA's objective is to ensure that all payments are made by their due dates and that all supplemental increases for superannuates are processed on a timely basis. PEBA met all deadlines in 1999.

The Commission and PEBA undertook a number of significant projects in 1999, including:

- Recalculation of Pensions.

  In 1998, the Commission allocated more than $12 million to improve the pension formula for pre-1990 service for retired members. This $12 million translated into improving 85% of pre-1990 service to the higher benefit levels. This benefit improvement required the recalculation of all of the Plan's pensions on an individual basis.

- Calculation of PARS.

  This year, the Canada Customs and Revenue Agency (formerly Revenue Canada) required registered pension plans to report Pension Adjustment Reversals (PARS) for employees who terminate and remove their money from the Plan. This provision was made retroactive to 1997. PEBA calculated approximately 1,500 PARS

for employees who withdrew all their money from the Plan in 1997, 1998 and 1999.

- Purchase of Waiting Period

  In 1998, employees who had to serve a waiting period before enrolling in the Plan were granted half that period as pensionable service. The Commission also gave these employees the option of purchasing the remaining half of the waiting period. PEBA processed 1,416 requests to purchase this service in 1999.

- Upgrade of Computer System

  In 1999, the Commission began work on a major upgrade of its pension administration system. Development and testing of the new system will continue in 2000. The new system will be online in 2001.

- Plan Review

  The Commission undertook a major review of the provisions of the Plan's policies, procedures, and *The Municipal Employees' Pension Act*. A large consultation process with Plan members and employers was part of this review.

  The result of the review is a significant set of proposals aimed at improving benefits to members and spending the Plan's excess surplus.

  The Commission intends to implement these proposals in 2001, pending approval from the Provincial Legislature.

SUPPLEMENTAL INCREASE FOR SUPERANNUATES

In January 1999, the Commission announced its fifteenth pension supplement to superannuates. Pensions that commenced prior to 1998 were increased by 1.27%. The increase for pensions starting in 1998 was prorated based on the date the pension commenced.

LEGISLATIVE AMENDMENTS TO *THE MUNICIPAL EMPLOYEES' PENSION ACT*

The following amendments were made to *The Municipal Employees' Pension Act* in 1999, effective May 6, 1999:

1) The Plan's definition of "spouse" was changed to reflect the meaning of "spouse" pursuant to the *Income Tax Act* (Canada).

2) No employee is required to make contributions in a year that exceed:

   a) the maximum contributions prescribed by the *Income Tax Act* (Canada) with respect to the employee for the year; or

   b) the amount of contributions that the employer is required to make with respect to the employee for the year.

3) Employees can contribute to the Plan for periods of parenting leave (as defined in *The Labour Standards Act*) subject to the *Income Tax Act* (Canada).

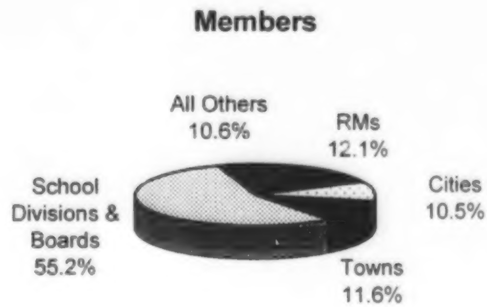
4) Members with "Former Plan" funds were given the opportunity to purchase "New Plan" service with their "Former Plan" funds.

5) Employers shall contribute to the Fund with respect to each employee an amount determined by the Commission in accordance with generally accepted actuarial principles.

COMPARATIVE STATISTICS

PLAN MEMBERSHIP

	Employers		Members	
	#	%	#	%
Cities	7	0.9%	832	10.5%
Other	23	3.1%	167	2.1%
Regional Colleges	8	1.1%	260	3.3%
Regional Libraries	8	1.1%	173	2.2%
Rural Municipalities (RMs)	295	39.9%	964	12.1%
School Divisions & Boards	86	11.6%	4,396	55.2%
Towns	142	19.2%	925	11.6%
Villages	171	23.1%	242	3.0%
Total Participants	740	100.0%	7,959	100.0%



RETIREMENT COMPARISONS

	1999	1998	1997	1996	1995
Normal Retirement	67	58	75	76	80
Early Retirement	86	110	75	92	67
Postponed Retirement	11	17	8	12	11
Other	0	4	8	5	5
Total Retirements	164	189	166	185	163

ADMINISTRATION EXPENSES

	(in thousands) 1999	1998
Salaries	$ 928	$ 644
Honorariums	21	11
Sub Total	949	655
Investment Fees		
Greystone Capital Management Inc.	743	764
Lincluden Management Limited	199	183
Foyston, Gordon & Payne	290	292
Brandes Institutional Equity Trust	348	31
Barclays Global Investors	17	
Computer Services	53	50
Software Maintenance and Development – James Evans and Associates	306	279
Operating Expenses	278	429
Custodian Fees – Royal Trust Corporation of Canada	86	86
Management Consultant – James P. Marshall Inc.	77	65
Actuarial Study – Aon Consulting	381	101
Postage	51	62
Rental	155	50
Total Administration Expenses	$3,933	$3,047

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly
of Saskatchewan

Administration of the Plan is presently assigned to the Public Employees Benefits Agency of the Department of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events which require approval by management.

The financial statements have been examined by KPMG whose report follows.

Brian Smith
Executive Director
Public Employees Benefits Agency

A. Mackrill

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Regina, Saskatchewan
February 15, 2000

MUNICIPAL EMPLOYEES' PENSION COMMISSION

MUNICIPAL EMPLOYEES' PENSION PLAN

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1999

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits of the Municipal Employees' Pension Plan as at December 31, 1999 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Municipal Employees' Pension Plan as at December 31, 1999 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 15, 2000

MUNICIPAL EMPLOYEES' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

STATEMENT 1

AS AT DECEMBER 31

	1999	1998
	(in thousands)	
ASSETS		
Investments (Note 3)		
Short term	$ 26,876	$ 32,607
Bonds	354,441	354,439
Equities	291,057	267,128
Pooled funds	162,871	94,175
Mortgages	2,498	2,746
Real estate	30,635	30,534
	868,378	781,629
Accounts receivable		
Employees' contributions	722	660
Employers' contributions	722	660
Accrued investment income	3,600	4,669
Due from General Revenue Fund (Note 5)	2,291	1,043
Other	253	27
	7,588	7,059
Cash	1,455	85
Total assets	877,421	788,773
LIABILITIES		
Accounts payable	858	1,089
Accumulated provision for annuities payable (Note 8)	34,086	33,168
Total liabilities	34,944	34,257
NET ASSETS AVAILABLE FOR BENEFITS	$842,477	$754,516

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN — STATEMENT 2
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31

	1999	1998
	(in thousands)	
INCREASE IN ASSETS		
Investment income		
Interest	$ 21,338	$ 22,924
Dividends	16,806	11,338
Mortgages	230	249
Real estate	2,335	2,342
	40,709	36,853
Current period change in market value of investments	57,510	37,501
Contributions		
Employees	12,804	10,654
Employers	10,947	10,267
Reciprocal transfers in	316	311
	24,067	21,232
Total increase in assets	122,286	95,586
DECREASE IN ASSETS		
Transfers, refunds and benefits (Note 7)	7,136	10,596
Defined benefit allowances	15,964	11,988
Annuity allowances	3,771	3,786
Supplementary benefits	2,603	2,734
Administrative costs	2,251	1,374
Investment and custodian fees	1,682	1,673
Change in accumulated provision for annuities payable (Note 8)	918	(849)
Total decrease in assets	34,325	31,302
INCREASE IN NET ASSETS	87,961	64,284
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	754,516	690,232
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$842,477	$754,516

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1999

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the Plan) is composed of several activities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the Act), Section 11, provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission is responsible for holding in trust and investing the monies of the Plan. The Municipal Employees' Pension Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

Defined Benefit Plan

The Defined Benefit Plan became effective July 1, 1973. This Defined Benefit Plan is mandatory for permanent employees.

A. Funding Policy

Effective January 1, 1993, contributions are established at 5.4% of salary (7.3% for designated police officers and firefighters). Contributions prior to January 1, 1993 were established at 7% of earnings net of deemed Canada Pension Plan contributions. Contributions are matched by the employer.

B. Pensions

Employees receive a pension at age 65, for each year and fractional year of contributory service in the Plan prior to retirement:

For service before 1990, the number of years of contributory service earned before 1990 times the greater of:

a) 1.8% times the average salary for the highest three years of the member's total pensionable service in the Plan, with each year ending in the month of termination (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the members' average salary for the highest three years of the member's pensionable service in the Plan, with each year ending in the month of termination, which is not in excess of the average yearly maximum pensionable earnings under the Canada Pension Plan for the three years immediately prior to retirement; and

ii) 2% of that portion of the member's average salary for the highest three years of the member's pensionable service in the Plan, with each year ending in the month of termination, which is in excess of the average yearly maximum pensionable earnings under the Canada Pension Plan for the three years immediately prior to retirement.

For service earned after 1989, the number of years of contributory service earned after 1989 times the greater of:

a) 1.5% times the average salary for the highest three years of the member's total pensionable service in the Plan, with each year ending in the month of termination (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary for the highest three years of the member's pensionable service in the Plan, with each year ending in the month of termination, which is not in excess of the average yearly maximum pensionable earnings under the Canada Pension Plan for the three years immediately prior to retirement; and

ii) 2% of that portion of the member's average salary for the highest three years of the member's pensionable service in the Plan, with each year ending in the month of termination, which is in excess of the average yearly maximum pensionable earnings under the Canada Pension Plan for the three years immediately prior to retirement.

C. Retirement

Normal retirement is at age 65. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Plan

The Money Accumulation Plan consists of members who made contributions to the Money Accumulation Plan in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member must purchase an annuity from either the Plan or a private insurer based on employee's and employer's matching contributions together with interest thereon. The member also has the option of purchasing a Life Income Fund (LIF) or a Life Retirement Income Fund (LRIF) from a private insurer. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer amounts. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

In addition, the accounts set up to record mandatory contributions made to the Plan prior to July 1, 1973, may also contain:

- voluntary employee and/or employer contributions made either before or after July 1, 1973 and until December 31, 1992;
- any employee and/or employer contributions made to the Plan subsequent to normal retirement age; and
- any excess employee funds transferred from the Defined Benefit Plan pursuant to subsection 20(4) of *The Municipal Employees' Pension Act*.

Annuity Underwriting

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of future annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to superannuates to compensate them for lost purchasing power. The supplementary benefits may be granted by the Commission as long as the solvency of the entire Plan is not impaired.

2. Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Valuation of Investments

Investments in bonds and equities are recorded at market values which are determined by reference to closing year end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Short term investments are valued at cost which approximates market value.

Pooled funds are valued based on the quoted market price of the underlying investments, normally the current bid price.

Real estate is valued at market value as estimated by independent appraisals performed annually.

Mortgages are valued at their net present value by discounting cash flows to current market rates of return.

The market value of investments approximates fair value.

Investment Transactions and Income

Investment transactions are recorded on the trade date. Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the settlement date. Interest income is accrued monthly and dividend income is recognized on the record date.

Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable represents the present value of the annuities underwritten by the Plan and is determined pursuant to an actuarial valuation. Any change in the liability pursuant to the valuation is recognized as a revenue or expense item in that year's operations.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long term horizon of the Plan's liabilities, the Plan takes a long term investment perspective. The strategy

employed to achieve these objectives is to invest cash flows from contributions, maturing debentures, and investment returns into assets such as Canadian equities, pooled funds, money market securities, and bonds.

Short Term Investments

These investments are comprised of T-Bills, notes and commercial paper with effective interest rates of 4.8% to 5.5% (1998 - 4.5% to 5.2%) and an average term to maturity of 89 days. The Plan's investment policy states that investments must meet a minimum investment standard of "R-2 high" as rated by a recognized credit rating service. Other than the Government of Canada, no single issuer represents more than 20.24% (1998 - 15.75%) of the total Plan's short-term investments.

Bonds and Debentures

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. In addition, not more than 15% of its total book value may be invested in BBB rated bonds. As at December 31, 1999, the Plan held 1.05% (1998 - 1.57%) of its portfolio in BBB bonds.

The Plan's investment in bonds and debentures are described below.

	1999 (in thousands)						**1998** (in thousands)		
Years to Maturity	**Federal**	**Provincial**	**Corporate**	**Total Market Value**	**Coupon Rate**	**Weighted Yield to Maturity at Market**	**Total Market Value**	**Coupon Rate**	**Weighted Yield to Maturity at Market**
Under 5	$ 51,029	$17,085	$32,750	$100,864	4.875-12%	6.13%	$166,950	1.95-14.75%	6.21%
5 to 10	64,489	27,851	20,621	112,961	5.25-9.65%	6.03%	113,543	5.5-10.88%	5.87%
Over 10	119,282	13,139	8,195	140,616	4.25-9.6%	6.04%	73,946	4.25-9.65%	5.23%
Market Value	$234,800	$58,075	$61,566	$354,441			$354,439		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The Plan holds $4,575,601 (1998 - $5,035,990) Province of Saskatchewan Bonds and Debentures. Investment income on these bonds and debentures, including the current period change in the market value of investments, was $(189,404) (1998 - $312,535).

Included in bonds and debentures are Canadian federal bonds denominated in United States dollars. The Canadian market value of these bonds are $2,866,063 (1998 - $2,883,584). In order to minimize the risk of foreign currency fluctuations, the Plan has hedged this risk by purchasing United States dollar forward exchange contracts of $1,608,700 (1998 - $2,373,974).

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation. The Plan's holdings were within these limits.

Foreign equities can not exceed 20% of the book value of the total Plan at the time of investment. As at December 31, 1999 the Plan held 3.89% (1998- 3.39%)

All foreign equities are denominated in Canadian dollars.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risks. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 1.48%.

Pooled Funds

The Plan limits its investments in pooled equity funds to 10% of the book value of each fund. Foreign equities including foreign pooled funds are limited to 20% of the cost of the investment portfolio and denominated in Canadian dollars.

The Plan holds units in pooled funds which have no fixed interest rate and its returns are based on the success of the investment manager. Investment income including the current period change in the market value of investments is $46,356,608 (1998 - $1,382,773).

Mortgages

All mortgages are secured by Canadian commercial properties and have effective and stated interest rates of 7.3% to 11.07% (1998 - 7.75% to 11.5%) with an average remaining term to maturity of 6.4 years (1998 - 7.5 years). Principal and interest are receivable on a monthly basis.

Real Estate

Investments in real estate consist of Canadian commercial property.

Included in the totals for real estate are holdings of SaskPen Properties Ltd. and SaskMet Properties Ltd. totaling $2,081,772 (1998 – $2,293,575). SaskPen Properties Ltd. and SaskMet Properties Ltd. are real estate corporations beneficially owned by Crown managed pension funds in the Province of Saskatchewan. Investment income including the current period change in the market value of investments from these holdings totaled $385,669 (1998 - $482,825).

4. Accounts Receivable/Accounts Payable

These financial instruments are both interest and non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the fair value of these financial instruments approximates its carrying value.

5. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty day borrowing rate for 1999 was 4.78% (1998 - 4.96%).

6. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years.

These unallocated changes are included as follows:

(in thousands)

	Members' Accumulated Balances	Unallocated Change in Market Value	Net Assets Available for Benefits
1999	$816,426	$26,051	$842,477
1998	$731,067	$ 23,449	$754,516

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 1999, an interest rate of 11.1% (1998 - 9.2%) was approved by the Commission for the Money Accumulation Plan and 11.1% (1998 - 9.2%) for the Defined Benefit Plan. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers fees.

7. Transfers, Refunds and Benefits

(in thousands)

	1999	1998
Transfers to other retirement plans	$ 118	$ 385
Transfers to locked-in RRSP	4,450	3,952
Lump sum payments to estates	403	88
Payments in lieu of annuities	651	712
Payments to insurance companies	5	44
Withdrawals with interest	1,509	5,415
	$7,136	$10,596

8. Obligations for Pension Benefits

The present value of accrued pension benefits was determined using the projected benefit method prorated on services and the administrator's best estimate assumptions. An actuarial valuation was performed as at December 31, 1998 by AON Consulting Inc. and extrapolated to December 31, 1999. The 1983 Group Annuity Mortality Table was used in the valuation along with mortality improvements projected until year 2005.

The actuarial present value of benefits as at December 31 and the principal components of changes in actuarial present values during the year were as follows:

(in thousands)

	1999	1998
Actuarial present value of accrued pension benefits, at beginning of the year	$675,343	$617,502
Interest accrued on benefits	53,904	43,279
Benefits accrued	33,142	30,630
Benefits paid	(29,477)	(29,104)
Change of assumptions	19,619	-
Net cost of plan improvements *	84,960	10,564
Net financial impact of plan's experience (1995-1998)	-	2,472
Actuarial present value of all accrued pension benefits, at end of the year	837,491	675,343
Net assets available for benefits excluding the accumulated provision per annuities payable	876,563	787,684
Excess of net assets available for benefits over actuarial present value of all accrued pension benefits	$ 39,930	$112,341

*** The Plan amendments shown above have not received Royal Assent from the Legislature.**

The actuarial present value of all accrued pension benefits includes the accumulated provision for annuities payable, based upon a valuation performed by AON Consulting Inc., valued at $34,086,000 as at December 31, 1999 (1998 - $33,168,000). This actuarial assumption uses the 1983 Group Annuity Mortality Table and the interest rate disclosed below.

Other assumptions used in determining the actuarial value of accrued pension benefits were:

	1999	1998
Interest rate	6.75%	7%
Salary escalation rate	3.5% to 5%	3.5% to 5%
Inflation	2.5% to 4%	2.5% to 4%
Indexation of Pensions	100% of inflation	100% of inflation

The pension liability is based on a number of assumptions about future events including: interest rates, rate of salary increases, inflation rates, mortality rates, retirement rates and termination rates. The actual rates may vary significantly from the long term assumptions used.

The following illustrates the effect of changing certain assumptions from the long term assumptions of inflation 4%, 5% for salary and an interest rate of 6.75%:

	Long Term Assumptions					
	Inflation		Salary Escalation Rate		Interest Rate	
	3%	5%	4%	6%	5.75%	7.75%
(Decrease) increase in liability	1.12%	(1.00%)	(2.18%)	2.53%	16.45%	(12.62%)

The pension liability is long term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling its pension obligations. Therefore, determination of the fair value of the pension liability is not practical.

9. Related Party Transactions

Administration expenses associated with administering the Plan are paid to the Public Employees Benefits Agency Revolving Fund.

10. Investment Performance

The investment manager makes day-to-day decisions on whether to buy or sell investments in order to achieve the long term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	1999	Rolling Four Year Average Annual Return
Plan's actual rate of return (a)	12.7%	14.9%
Target rate of return (b)	13.5%	13.7%

(a) The annual returns are before deducting investment expenses.

(b) The Plan's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the Toronto Stock Exchange 300 Index, Standard & Poors 500 US Stock Index and the Scotia Capital Markets Universe Bond Index.

11. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

APPENDIX 'A'

DESCRIPTION OF MARKET INDICIES

Toronto Stock Exchange 300 Composite Index (TSE 300) is a capitalization-weighted index (i.e., the larger the capitalization, the greater the weight in the index). The TSE 300 is comprised of the 300 largest stocks on the Toronto Stock Exchange, ranked by the market value of a stock's tradable market capitalization, and is the broadest Canadian equity index available.

Standard & Poor's 500 Stock Composite Index (S&P 500) is a capitalization-weighted index of publicly traded stocks issued by 500 of the largest U.S. companies. For the purposes of this annual report, the S&P Index returns are converted from U.S. to Canadian dollars, and therefore reflect currency gains or losses.

MSCI Europe, Australia and Far East Index (EAFE) includes 20 of the world's largest industrialized countries (excluding Canada and the U.S.). The index is capitalization-weighted and contains almost 1,100 stocks. The index is updated periodically and new countries are added when they meet the eligibility criteria. Because the index is capitalization-weighted, it is dominated by Japan, which on average, has represented about 40% of the index.

Russell Canadian Property Index provides a comprehensive benchmark of investment returns for institutional real estate properties that are geographically dispersed across Canada. Almost 1,000 properties with an aggregate value of about $15 billion are included in the index.

Scotia Capital Markets Universe Bond Index is a capitalization-weighted index containing bonds with a term to maturity in excess of one year and is designed to track the broad Canadian bond market. The index contains over 760 bonds with a total market capitalization of about $420 billion. The index does not contain foreign-pay bonds, mortgage backed securities or real return bonds.

Scotia Capital Markets 3-year Conventional Mortgage Total Return Index is calculated using the composite of 3-year mortgage rates offered by major institutional lenders as at each month end. Index returns reflect mortgage yields and capital gains/losses, using a base year unit value of December 31, 1979.